The Heritage Foundation Backgrounder Executive Summary

No. 1162 March 5, 1998

INCREASING THE MANDATED MINIMUM WAGE: WHO PAYS THE PRICE?

D. MARK WILSON

Less than six months after its last increase to $5.15 per hour, President Bill Clinton is proposing a hike of 19.4 percent that would raise the federally mandated minimum wage over the next two years to $6.15 per hour. During the past eight years, Congress has increased the mandated minimum wage four separate times. Before raising the minimum wage again, Congress must ask itself a fundamental question: Should it be illegal for Americans, young or old, to work at even a part-time job for $5.50 or $6.00 an hour?

An increase in the mandated minimum wage to $6.15 per hour would be unprecedented in size: in effect, it would represent an increase of $1.90 per hour (44.7 percent) from 1996 to 1999. Never before has Congress raised the minimum wage by more than $1.05 per hour over a period of four years. And that $1.05-per-hour hike took place from 1978 to 1981, a period in which inflation was increasing an average of 10.7 percent per year.

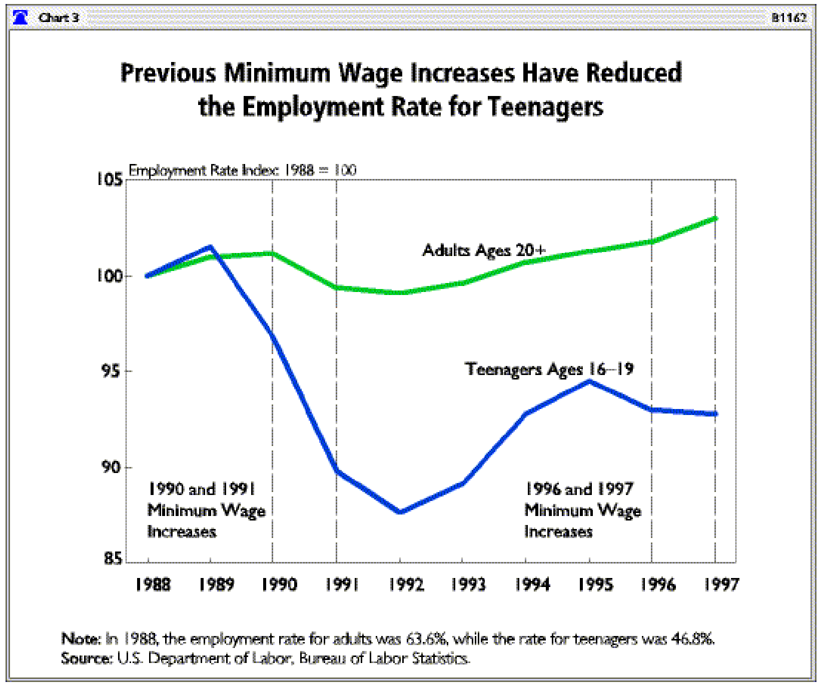
Supporters of a federally mandated minimum wage continue to claim that additional increases are needed because the "rich are getting richer, while the poor are getting poorer." Although wage differences have widened over the past 20 years, such bad economic policy as a mandated minimum wage for workers serves only to exacerbate this problem. President Clinton's proposal to raise the minimum wage, moreover, works against the efforts of Congress to address the problem of moving unskilled Americans from welfare to work. It is an uncompassionate mandate that gives some low-wage workers an increase in their earnings while depriving others of the opportunity to earn anything at all.

Produced by
The Thomas A. Roe Institute for Economic Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002–4999
(202) 546-4400
http://www.heritage.org

Proponents often point to the increase in employment after the most recent hikes in the minimum wage as proof that raising the minimum wage does not destroy jobs. This argument, however, is misleading and deceptive. The overwhelming majority of economists agree that focusing only on the minimum wage's effect on total employment hides significant negative effects within groups like teenagers (see Chart 3). Although the last increase in the minimum wage did not reduce employment, it did reduce employment growth. The number of jobs, particularly for teenagers, would have grown even faster than it did over the past two years without the 1996 and 1997 increases in the minimum wage.

To be sure, increasing the minimum wage would help some low-income workers, but it would harm many more Americans. Consider the following:



- Had Congress not raised the minimum wage in 1996, there would have been 128,000 more entry-level job opportunities for teenagers than were created otherwise. After the October 1996 increase, the employment rate of teenagers declined by 0.14 percent. For black teenage males, the decline was even worse—1.0 percent.
- Recent economic research suggests that a higher minimum wage would decrease school enrollment and increase the proportion of idle teenagers—those neither in school nor employed.
- Raising the minimum wage to $6.15 would cost consumers and workers about $6.5 billion over the next two fiscal years as the higher cost of entry-level jobs is passed on through higher prices and lower real wages. Although the overall inflation rate has been very modest in recent years, inflation in the service sector—in which most minimum wage workers are employed—is rising much faster.
- Increasing the minimum wage would represent a substantial unfunded mandate on state and local government. It would cost taxpayers about $383.1 million over the next two fiscal years as the higher cost of state and local government jobs is passed on through higher taxes or fewer services.

A policy decision like increasing the minimum wage is not cost-free; someone has to pay for it. Economic research indicates that those who pay the most are unskilled youth through fewer job opportunities, consumers through higher prices, and taxpayers through higher taxes or fewer services. Voters recognize these costs. Over the past two years, they have rejected eight out of ten state and local ballot initiatives that would have raised the minimum wage. Instead of hiking the minimum wage, Congress and the Clinton Administration should take positive steps to benefit American workers. They should cut marginal tax rates on work, savings, and investment; increase the skills of the future workforce; modernize the Fair Labor Standards Act to grant working parents the opportunity for flexible work schedules; and reduce the burden of federal regulations.

—D. Mark Wilson is the Labor Economist at The Heritage Foundation.

The Heritage Foundation
Backgrounder
214 Massachusetts Avenue, N.E. Washington, D.C. 20002-4999 • (202) 546-4400 • http://www.heritage.org

No. 1162 March 5, 1998

INCREASING THE MANDATED MINIMUM WAGE: WHO PAYS THE PRICE?

D. MARK WILSON

Less than six months after its last increase to $5.15 per hour, President Bill Clinton is proposing a hike of 19.4 percent that would raise the federally mandated minimum wage over the next two years to $6.15 per hour. During the past eight years, Congress has increased the mandated minimum wage four separate times. Before raising the minimum wage again, Congress must ask itself a fundamental question: Should it be illegal for Americans, young or old, to work at even a part-time job for $5.50 or $6.00 an hour?

An increase in the mandated minimum wage to $6.15 per hour would be unprecedented in size: in effect, it would represent an increase of $1.90 per hour (44.7 percent) from 1996 to 1999. Never before has Congress raised the minimum wage by more than $1.05 per hour over a period of four years. And that $1.05-per-hour hike took place from 1978 to 1981, a period in which inflation was increasing an average of 10.7 percent per year.[1]

Supporters of a federally mandated minimum wage continue to claim that additional increases are needed because the "rich are getting richer, while the poor are getting poorer." Although wage differences have widened over the past 20 years, such bad economic policy as a mandated minimum wage for workers serves only to exacerbate this problem. President Clinton's proposal to raise the minimum wage, moreover, works against the efforts of Congress to address the problem of moving unskilled Americans from welfare to work. It is an uncompassionate mandate that gives some low-wage workers an increase in their earnings while depriving others of the opportunity to earn anything at all.

Produced by
The Thomas A. Roe Institute
for Economic Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002–4999
(202) 546-4400
http://www.heritage.org

LEADERSHIP FOR AMERICA · HERITAGE · 25 YEARS · THE HERITAGE FOUNDATION ·

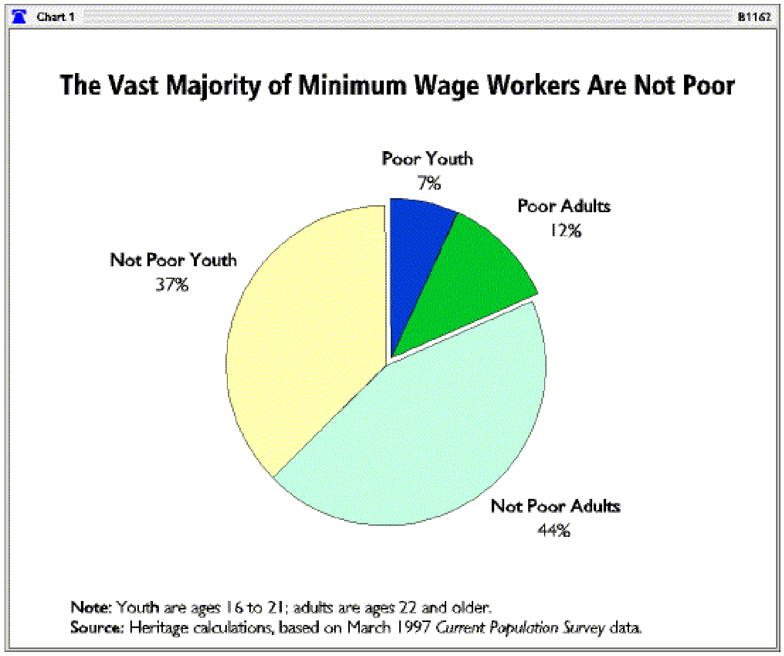
A policy decision like increasing the minimum wage is not cost-free; someone has to pay for it. Economic research indicates that those who pay the most are unskilled youth through fewer job opportunities, consumers

1. Council of Economic Advisers, *Economic Report of the President,* February 1998.

through higher prices, and taxpayers through higher taxes or fewer services.

FACTS ABOUT MINIMUM WAGE WORKERS

Ironically, former Senator George McGovern understood the primary importance of minimum wage employment: “We forget that too often a job—any job—is the best training for a better or more specialized job.”[2] Entry-level, minimum wage jobs generally are not lifelong, dead-end jobs. These jobs often allow young Americans to begin establishing a track record of work that creates opportunities for jobs that pay better. More than 60 percent of all workers can point to a minimum wage job as their first job experience.[3] Some 40 percent of workers starting a minimum wage job will receive a raise within four months, and 63 percent of those workers will be earning 20 percent more than the minimum wage within 12 months.[4]



The Vast Majority of Minimum Wage Workers Are Not Poor

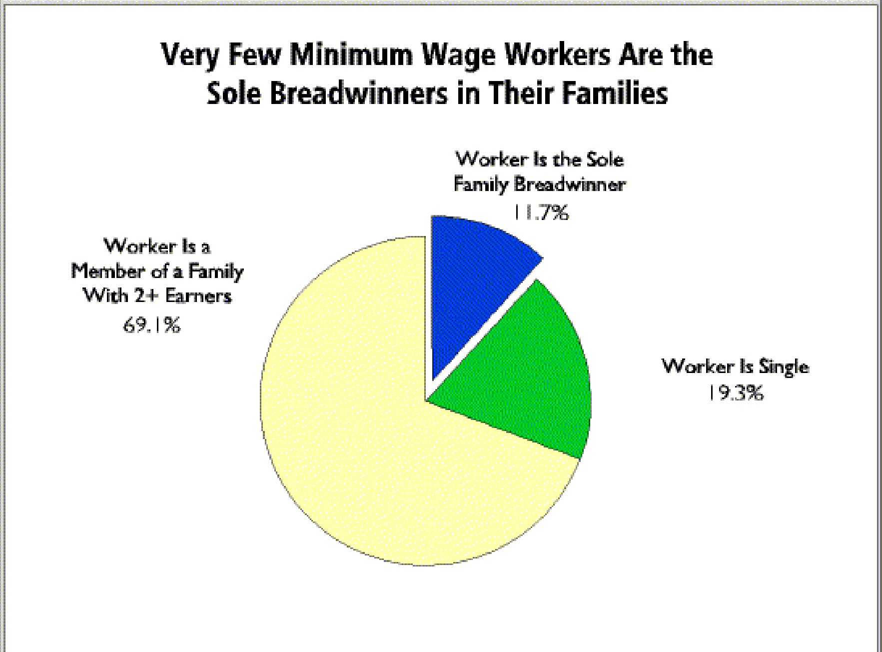
Note: Youth are ages 16 to 21; adults are ages 22 and older.
Source: Heritage calculations, based on March 1997 *Current Population Survey* data.

For the most part, the 4.2 million workers who worked at or below the minimum wage in March 1997 can be broken down into two broad groups.[5]

- Roughly half (44.2 percent) were teenagers or young adults aged 21 or less, and most (66.6 percent) of these young workers lived in families with incomes two or more times the official poverty level for their family size (see Chart 1).[6] The average family income of a teenage minimum wage worker was around $54,000.[7] Only 15.5 percent of these young workers lived in poor families.[8]
- The other half (55.8 percent) were workers aged 22 and up.[9] More of these workers lived in poor families (21.2 percent) or near the poverty level (39.0 percent had family incomes less than 1.5 times the poverty level).[10] Even within this half of the minimum wage

2. Dick Armey, *The Freedom Revolution* (Washington D.C.: Regnery Publishing, Inc., 1995), p. 238.
3. David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, N.J.: Princeton University Press, 1995).
4. Ralph E. Smith and Bruce Vavrichek, “The Wage Mobility of Minimum Wage Workers,” *Industrial Relations and Labor Review,* Vol. XLVI, No. 1 (October 1992), pp. 82–88. Twenty percent is the median increase for those workers.
5. Heritage calculations based on the March 1997 *Current Population Survey* (CPS) microdata. This is the most recent public use CPS information currently available that includes family income data. Although there was a subsequent increase in the minimum wage on October 1, 1997, the percentages presented in this section are unlikely to have changed significantly.
6. Heritage calculations based on the March 1997 CPS microdata. The poverty rate in 1996 was $7,995 for a single person, $10,233 for two-person families, and $12,516 for three-person families.
7. *Ibid.*
8. *Ibid.*
9. *Ibid.*
10. *Ibid.*

Chart 2 B1162



Source: Heritage calculations, based on March 1997 *Current Population Survey* data.

population, however, 48.1 percent lived in families with incomes two or more times the poverty level, and the average family income of minimum wage workers aged 22 and up was around $32,000.[11]

- Only 11.7 percent of minimum wage workers were the sole breadwinners in their families in the previous year; their average annual family income was $19,150 (see Chart 2).[12] Over 40 percent of the sole breadwinners earning the minimum wage were voluntary part-time workers.[13]
- Over half (52.6 percent) of all minimum wage employees were voluntary part-time workers.[14] Thirty-four percent were part-year, part-time employees.[15]
- Only 19.9 percent of all minimum wage workers were family heads or spouses working full time, 37.7 percent were children, and 38.1 percent were young Americans enrolled in school.[16]

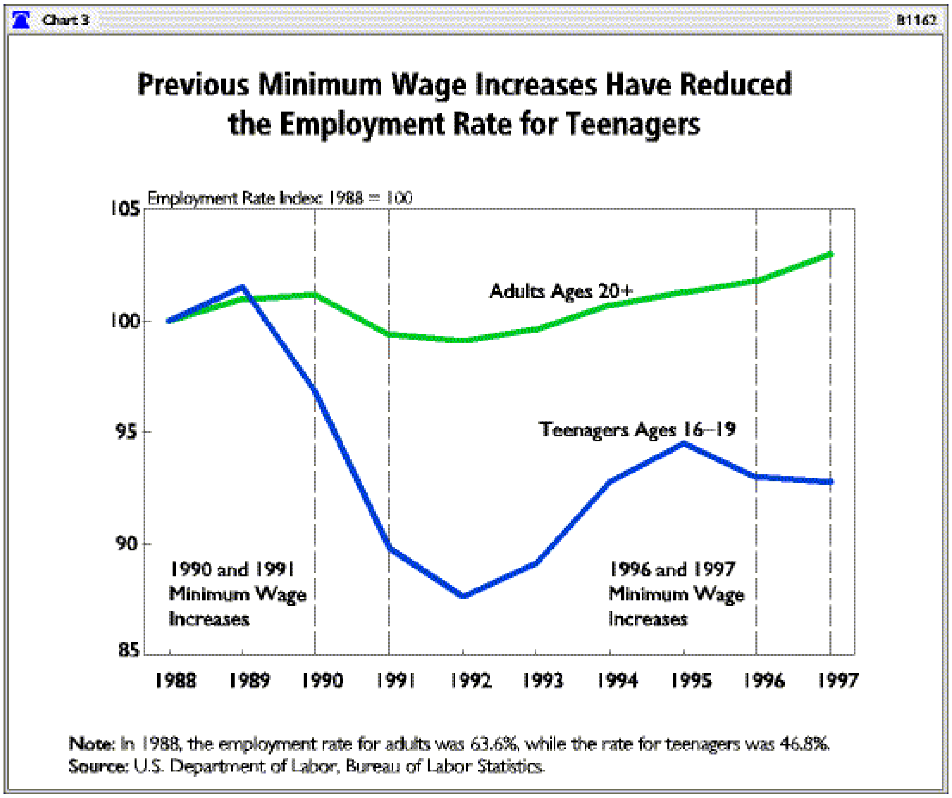
The popular belief that minimum wage workers are poor adults working full-time and trying to raise a family is largely untrue. Indeed, most minimum wage workers live in families with incomes well above the poverty level. And over half of those who do work in minimum wage jobs do so voluntarily, on a part-time basis.

WHO PAYS THE PRICE WHEN CONGRESS MANDATES A HIKE IN THE MINIMUM WAGE?

> *The last time we did it [raised the minimum wage], it didn't cost jobs; we continued to create jobs at a very brisk pace.*
>
> —President Bill Clinton
> February 12, 1998[17]

Proponents often point to the increase in employment after the most recent hikes in the minimum wage as proof that raising the minimum wage does not destroy jobs. This argument,

11. *Ibid.*
12. *Ibid.* "Families" here refers to the traditional meaning—parent(s) with children—and does not include single family heads with no children. Some analysts count single workers as families, a practice that substantially inflates the number. Including single people in the family count increases the percentage of sole breadwinners to 30.9.
13. *Ibid.*
14. *Ibid.*
15. *Ibid.*
16. *Ibid.*
17. "Remarks by the President to the Joint Democratic Caucus," White House press release, February 12, 1998.



however, is misleading and deceptive. The overwhelming majority of economists agree that raising the minimum wage will mean fewer job opportunities for lower-skilled workers.[18] Focusing only on the minimum wage's effect on total employment, or even on an entire demographic group, such as teenagers, masks significant negative effects within groups. For example, although the employment rate for adult Americans increased from 64.4 percent in 1995 to 65.5 percent in 1997, the employment rate for teenage males declined from 44.7 percent to 43.4 percent (see Chart 3).[19] Although the last minimum wage increase did not reduce employment, it did reduce employment growth. The number of jobs, particularly for teenagers, would have grown even faster than it did over the past two years without the 1996 and 1997 increases in the minimum wage.

To be sure, increasing the minimum wage tends to help some low-income workers, but it also harms many more Americans. Consider the following:

- Had Congress not raised the federal minimum wage in October 1996, there would have been 128,000 more entry-level job opportunities nationally for teenagers than were created otherwise.[20] After the increase, the employment rate of teenagers declined by 0.14 percent. For black teenage males the decline was even worse—1.0 percent.[21]

- Raising the minimum wage to $6.15 will cost consumers and workers about $2.4 billion in fiscal year 1999 and another $4.1 billion in fiscal year 2000 as the increased cost of entry-level jobs is passed on through higher prices and lower real wages.[22] The overall inflation rate has been very modest in recent years, but restaurant menu prices in 1997 increased 2.6 percent compared with a 1.7 percent increase

18. One survey indicates that 90 percent of economists fall within this group. See James K. Glassman, "Don't Raise the Minimum Wage," *The Washington Post,* February 24, 1998, A21.

19. U.S. Department of Labor, Bureau of Labor Statistics, Internet Web Site, *http://stats.bls.gov/blshome.htm*. The employment rate is a better measure of employment growth because it takes into account the natural increase in population over time. Adults are defined here as Americans ages 20 and above.

20. Employment Policies Institute, "The 1996 Increase in the Minimum Wage: Who Paid?" January 1998.

21. *Ibid.*

22. Heritage Foundation estimate from the March 1997 CPS microdata. In 1996, the Congressional Budget Office (CBO) estimated the cost of a $0.90 per hour increase to the private sector to be $2.0 billion in fiscal year 1997 and $3.7 billion in fiscal year 1998.

in the consumer price index.[23] Inflation in the service sector, in which most minimum wage workers are employed, rose 2.8 percent in 1997—1.1 percent higher than the overall inflation rate.[24]

- Increasing the minimum wage is a substantial unfunded mandate on state and local government. It will cost taxpayers about $137.2 million in fiscal year 1999 and another $245.9 million in fiscal year 2000 as the higher cost of state and local government jobs is passed on through higher taxes or fewer services.[25]
- Taxpayers also will be asked to pay billions more for ineffective government training programs because the higher minimum wage has priced some unskilled Americans out of the job market.[26] For example, U.S. taxpayers spend $871 million per year on the summer jobs program to create subsidized employment specifically for teens who cannot find entry-level jobs, and over $16,000 per year for each Job Corps participant—40 percent of whom are 17 years old or younger.[27]

Using one of the leading models of the U.S. economy, Heritage Foundation economists have estimated the effect of raising the minimum wage by $1.00 per hour over the next two years on job opportunities.[28] According to the Heritage analysis:

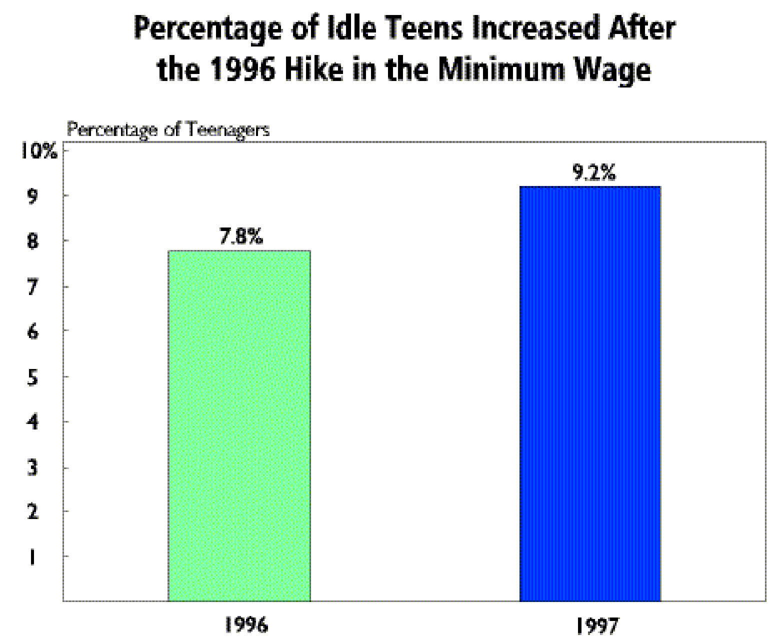
- An increase of $1.00 per hour in the minimum wage would cause employers to create an average of 345,000 fewer jobs in 2000, after which the impact would decline.[29] The rise in the minimum wage would cause the unemployment rate to increase by 0.2 percentage points in 2000.[30] Although the model estimates that employment would continue to grow, the proposed minimum wage increase would cause it to grow at a slower rate.
- Prices would be 0.2 percentage points higher in 1999 and 0.1 percentage points higher in 2000 as employers passed on their increased costs to both poor and non-poor consumers.[31]
- Short- and long-term interest rates would be 0.1 percentage points higher in 2000, and the gross domestic product $5.0 billion lower, than they otherwise are estimated to be without the minimum wage increase.[32]

When the government mandates a hike in the minimum wage there will be some winners, but

23. National Restaurant Association, "The Impact of the 1996/97 Minimum Wage Increase," January 1998.
24. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index: December 1997," January 13, 1998.
25. Heritage Foundation estimate from the March 1997 CPS microdata. In 1996, the CBO estimated the public sector cost of a $0.90 per hour increase to the private sector to be $180 million in FY 1997 and $310 million in FY 1998. The CBO estimate is higher because it includes tribal government employers.
26. Mark Wilson, "Reforming the Federal Job Training Programs: How Congress Can Avoid Previous Failures," Heritage Foundation *F.Y.I.* No. 151, September 30, 1997.
27. U.S. Department of Labor, Employment and Training Administration, "Job Corps Annual Report," January 1997.
28. The estimates in this section were developed by The Heritage Foundation using the Mark 11 U.S. Macro Model of WEFA, Inc., formerly Wharton Econometric Forecasting Associates. The model was developed in the late 1960s by Nobel Prize–winning economist Lawrence Klein and several of his colleagues at the Wharton Business School of the University of Pennsylvania. The model is used widely by *Fortune* 500 companies, prominent federal agencies, and economic forecasting departments. The methodologies, assumptions, conclusions, and opinions herein are entirely the work of Heritage Foundation analysts. They have not been endorsed by, nor do they necessarily reflect the views of, the owners of the model.
29. Heritage Foundation estimate using the Mark 11 U.S. Macro Model of WEFA.
30. *Ibid.*
31. *Ibid.*
32. *Ibid.*

there also will be a great number of losers. Someone must pay for the cost of the increase. Taxpayers pay as the higher cost of the unfunded mandate is handed down to state and local governments. Unskilled young Americans pay in the form of fewer job opportunities. And consumers pay as businesses pass on the cost of the mandate through higher prices.

Chart 4 B1162



Note: "Idle" refers to those teens neither in school nor employed.
Source: Heritage calculations, based on March 1997 and 1996 *Current Population Survey* data.

RAISING THE FEDERALLY MANDATED MINIMUM WAGE INCREASES IDLENESS AMONG TEENAGERS

Recent studies reveal that the significant negative effects of the minimum wage on the employment prospects of unskilled teenagers are masked by their replacement in the workforce by more highly skilled teens.[33] Although they find the net employment effect of raising the minimum wage is relatively small, the studies show a higher minimum wage tends to decrease school enrollment and increase the proportion of idle teenagers—those neither in school nor employed.[34] A higher minimum wage induces some teenagers to drop out of school and look for work, but they will be displaced from the job market as employers respond to the higher minimum wage by looking for higher-skilled teenagers.[35]

- In response to the 1996 hike in the minimum wage, the school enrollment rate for teenagers declined from 80.4 percent to 79.1 percent, while the proportion of idle teens rose by 1.4 percentage points to 9.2 percent (see Chart 4).[36]
- After the 1996 increase in the minimum wage, the school enrollment rate declined for every subgroup of teenage youth but black teens. For example, the female teenage school enrollment rate fell 1.9 percentage points, while the rate among Hispanics plummeted 5.6

33. See David Neumark and William Wascher, "Employment Effects of Minimum and Subminimum Wages: Reply to Card, Katz, and Krueger," *Industrial and Labor Relations Review,* Vol. 46, No. 1 (April 1994); and David Neumark and William Wascher, "Minimum Wage Effects on Employment and School Enrollment," *Journal of Business and Economic Statistics,* Vol. 13, No. 2 (April 1995).
34. David Neumark and William Wascher, "The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys," *Research in Labor Economics*, 1996.
35. Neoclassical economic theory predicts that a higher minimum wage increases the relative demand for higher-skill (enrolled) teenagers and induces some of them to leave school for employment. As employers substitute toward these higher-skilled teenagers, lower-skilled, out-of-school teenagers at or near the old minimum wage are displaced from the labor market.
36. Heritage calculations based on the March 1997 and March 1996 CPS microdata.

percentage points.[37] Even the rate for teenagers aged 16 and 17—who clearly belong in school—declined by 0.4 percentage points.[38]

- After the 1996 hike in the minimum wage, the rate of idleness among teenagers also increased significantly. For example, the proportion of teenage males neither in school nor employed rose from 7.7 percent in March 1996 to 9.5 percent in March 1997, and the proportion of idle Hispanic teens shot up from 12.0 percent to 18.8 percent.[39] Even the rate of idle teenagers aged 16 and 17 rose by 0.3 percentage points to 4.1 percent.[40]

Raising the minimum wage changes the composition of the youth workforce. Lower-skilled teens are displaced from the job market while more highly skilled teens are lured in by higher wages even at the expense of completing their education.[41] Focusing on changes in total employment ignores the flow of young workers in and out of jobs and can result in a measure of net job change that significantly understates the true magnitude of the employment effect for the youngest and least-skilled workers.

THE MINIMUM WAGE DESTROYS ECONOMIC FREEDOM AND UNDERMINES THE MOVE FROM WELFARE TO WORK

Before raising the minimum wage, Congress must ask itself two fundamental questions: Should it be illegal for Americans to work at even a part-time job for $5.50 or $6.00 an hour? And does the federal government have the right to destroy the economic freedom of families by telling parents that their young son or daughter may not work this summer for $5.50 an hour, or telling a senior citizen that he or she may not work part-time for $6.00 an hour next year?

Proponents defend a minimum wage increase by elevating it to a moral issue and a moral imperative. The minimum wage, however, epitomizes government paternalism at its worst. It presumes that politicians are morally justified in destroying some people's job opportunities in order to inflate other people's wages. The American principle of economic freedom has been replaced by the principle of "government knows best." Decreeing a higher minimum wage without mandating that every American be given a job knocks the bottom rung off the economic ladder and denies new workers their opportunity to begin pursuing the American Dream.

The state of Oregon, in a brief to the U.S. Supreme Court defending its 1917 minimum wage law, revealed the actual implications of such laws:

> If Simpson [a woman thrown out of work by the Oregon law] cannot be trained to yield output that does not pay the cost of her own labor, then she can...accept the status of a defective to be segregated for special treatment as a dependent of the state.[42]

President Clinton's proposal to raise the minimum wage directly contradicts—indeed, works against—the efforts of Congress to address the problem of moving unskilled Americans from welfare to work because it drives up the cost of entry-level jobs and encourages employers to hire

37. *Ibid.*

38. *Ibid.*

39. *Ibid.*

40. *Ibid.*

41. David Neumark and William Wascher, "The Effects of Minimum Wages on Teenage Employment, Enrollment, and Idleness," Employment Policies Institute, August 1995.

42. James Bovard, "How Fair Are the Fair Labor Standards?" *Regulation: The Cato Review of Business & Government,* Vol. 18, No. 1 (1995).

higher-skilled job applicants. And Congress, instead of resisting previous increases in the minimum wage, has passed two separate tax credits for employers—the Welfare-to-Work Tax Credit and the Work Opportunity Tax Credit. The Welfare-to-Work Tax Credit provides employers with a substantial tax credit equal to 35.4 percent of the cost of a minimum wage job to encourage them to hire long-term welfare recipients.[43] Yet, instead of addressing conflicting federal policies, proponents prefer to try to curry favor with voters by proposing another hike in the minimum wage.

Voters, however, seem not to be buying proponents' arguments. Over the past two years, voters have rejected eight out of ten state and local ballot initiatives that would have raised the minimum wage in their state or local communities.[44] For example, in 1996, Missouri voters defeated a ballot initiative by 72 percent to 28 percent that would have raised the state minimum wage to $6.75 per hour.[45] And in 1997, voters in Houston, Texas, defeated by 78 percent to 22 percent a ballot initiative that would have raised the minimum wage in the city to $6.50 per hour.[46]

Raising the minimum wage is bad public policy. It destroys economic freedom and runs counter to the primary objective of welfare reform. It makes it illegal for senior citizens to work one or two days a week in their local day care center for $5.00 per hour. And it makes it more difficult for unskilled Americans to move off of welfare into unsubsidized employment.

HOW TO RAISE TAKE-HOME PAY WITHOUT DESTROYING JOBS[47]

Imposing another mandate that raises costs to businesses and thus the prices of goods and services, destroys entry-level job opportunities, and raises the cost of state and local government is not a compassionate or sensible response to the problems facing low-wage workers. Instead of hiking the minimum wage, Congress and the Clinton Administration should focus on removing the barriers to productivity and wage growth they have imposed on the private sector. Specifically, Congress and the Administration should:

- **Cut marginal tax rates on work, savings, and investment.**[48] Federal taxes will consume 19.9 percent of economic output in 1998, a peacetime record.[49] Since 1993, the tax burden relative to gross domestic product has climbed by 2.1 percent.[50] Just reducing taxes to the level they were when Mr. Clinton took office would mean that the average family of four would receive more than $2,500 in annual tax relief.[51]

43. The Welfare-to-Work Tax Credit offers a maximum tax savings of $8,500 per new qualified worker over two years. The cost of a full-time, full-year minimum wage job is around $23,978 over two years ($21,424 in wages and $2,554 in employer-paid taxes). This tax credit effectively reduces the hourly cost of qualified minimum wage workers from $5.76 to $3.72. The Work Opportunity Tax Credit offers a maximum tax savings of $2,100 for workers and $1,050 for qualified summer youth employees.

44. National Restaurant Association, "Save American Free Enterprise," Fact Sheet, January 1998. Voters defeated five ballot initiatives by wide margins and three other initiatives failed to collect enough voter signatures to make it onto the ballot.

45. National Restaurant Association, "Save American Free Enterprise," Fact Sheet, January 1998.

46. *Ibid.*

47. Mark Wilson and Angela Antonelli, "How to Raise Take-Home Pay Without Destroying Jobs," Heritage Foundation *F.Y.I.* No. 102, May 17, 1996.

48. Daniel J. Mitchell, "Return the Revenue Surplus to the Taxpayers," Heritage Foundation *Backgrounder* No. 1155, February 11, 1998.

49. *Ibid.*

50. *Ibid.*

51. *Ibid.*

- **Increase the skills of the future workforce.** What is needed is fundamental change aimed at improving basic education through school choice and enabling local educators to strengthen core curricula, improve discipline, and set high expectations. More highly skilled workers will be able to command higher salaries without government interference through hikes in the minimum wage.
- **Modernize the Fair Labor Standards Act to grant parents the opportunity for flexible work schedules so they can spend more time with their children.**[52] Congress should extend the same option to private-sector workers that federal employees have enjoyed for 20 years: the ability to bank their overtime hours for future use as paid time off.
- **Reduce the burden of federal regulations.** Today, regulations cost businesses in the range of $3,000 to $5,000 per year per employee, depending on the size of the firm.[53] Between April 1, 1996, and December 31, 1997, the federal government issued almost 7,000 new final rules at an extremely conservative minimum estimate of $10 billion in annual costs to the economy.[54]

CONCLUSION

Mandating another increase in the minimum wage appeals to the sense of decency and compassion of Americans. The effects of this social engineering, however, are much less appealing. Increasing the minimum wage would impose significant costs, primarily on those unskilled Americans a hike in the minimum wage is supposed to help.

Increasing the government-mandated minimum wage is no free lunch; someone has to pay for it. Economic research indicates that those who pay the most are unskilled youth through fewer job opportunities, consumers through higher prices, and taxpayers through higher taxes and fewer government services. Moreover, raising the minimum wage is bad public policy because it destroys economic freedom and undermines welfare reform. Congress and the Clinton Administration should focus instead on removing the barriers to productivity and wage growth they have imposed on the private sector.

—D. Mark Wilson is the Labor Economist at The Heritage Foundation.

52. Mark Wilson, "Flex-Time for Families: What Works for the Government Can Work for the Private Sector," Heritage Foundation *F.Y.I.* No. 132, February 26, 1997.
53. Thomas D. Hopkins, "Profiles of Regulatory Costs," report to the U.S. Small Business Administration, November 1995, Tables A–6 and B–6.
54. Estimate provided by the General Accounting Office's database of final regulations covered by the Congressional Review Act (Subtitle E, Title II of P.L. 104–121). More than 100 of the final rules are major, defined as having an annual effect on the economy of $100 million or more.